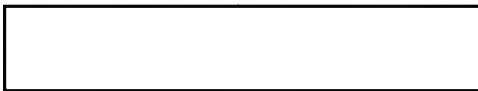


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28 October 1954

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GENERAL

1. New Soviet note gets cool reception in Western Europe:

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The British Foreign Office has informed the American embassy in London that it sees no reason for haste in replying to the Soviet note of 23 October, and that it remains firm on the point that any East-West conference on European problems should not take place before at least the four major Western powers have ratified the Paris treaties. The British regard the note as designed primarily to influence the West German Social Democrats and the French National Assembly.

The Soviet note has had almost no effect on West German politicians so far, the general impression being that it contains nothing new, American officials in Bonn report. Even the Social Democrats, while continuing to press for four-power talks, admit that the note is "disappointing."

French Foreign Ministry officials also see nothing new in the Soviet note, but they expect increased public interest in East-West talks as the assembly debate on the German rearmament agreement approaches.

Comment: Chancellor Adenauer will be able to ward off any demand for four-power talks at this time. Ambassador Dillon in Paris believes that French opinion will go along with a delay in four-power talks until after ratification of the Paris treaties.

SOVIET UNION

2. Comment on recent diplomatic incident in Moscow:

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The recent breach of diplomatic immunity involving wives of two American embassy officers in Moscow is the latest of four

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Soviet-inspired incidents that have occurred since June. This latest harassment, particularly serious in its implications for the future well-being of American personnel in the USSR, is probably aimed along with the others at inhibiting the movements of embassy personnel without officially restricting their activities.

Ambassador Bohlen feels that Soviet falsification of facts in this matter and rejection of the American note would seem to indicate that it is the policy of the Soviet government to provoke such incidents. Further acts of harassment are to be expected.

These incidents may in part reflect Soviet sensitivity over increased travel and picture-taking by diplomatic personnel. They may also, however, be intended to provoke a strong American reaction which would help to dramatize a distinction the Kremlin is trying to make between the allegedly aggressive and unyielding policy of the United States government and the wishes of European and Asian countries for a relaxation of tensions and better relations with the Communist bloc.

SOUTHEAST ASIA

3. Viet Minh rehabilitating railway from Hanoi to China border:

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Reconstruction of the 100-mile railway from Hanoi northeast to Nam Quan near Dong Dang (see map, p. 5) on the China border was begun on 22 October, according to a Viet Minh newspaper in Hanoi. Many tens of thousands of workers were said to be at work on the line. The first train was reported to have been put into service over a short stretch near Hanoi on 26 October.

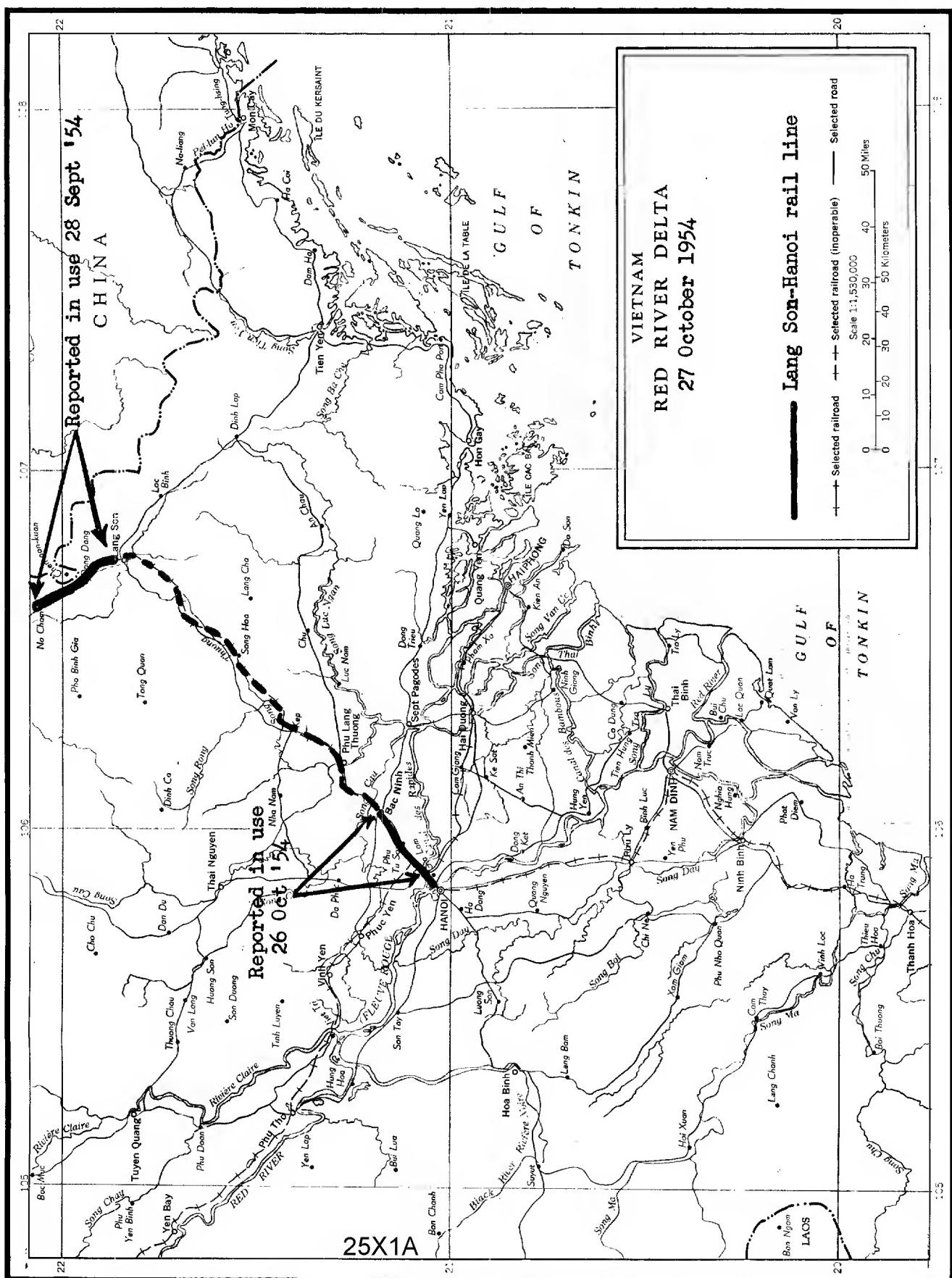
Comment: This single-track line has been out of service since World War II, although a short portion between Na Cham and Lang Son was reported in use in late September.

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It will connect with the Hunan-Kwangsi Railway, China's main supply route into Indochina, thereby greatly increasing the Viet Minh's logistic capabilities.

With Chinese help and supplies, the Viet Minh should be able to restore this and the other war-torn lines in its territory, which total 675 miles, by early 1955. The Chinese Communist regime restored 5,000 miles of track in its first year of existence.

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NEAR EAST - AFRICA

5. Egypt seeks American military aid:

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Egyptian prime minister Nasr now wishes a military aid agreement with the United States in view of improvements in the internal situation in Egypt, according to the Egyptian ambassador in Washington.

The ambassador, who was vague on details, told the Department of State on 22 October that Nasr wished the simplest type of agreement possible in the form of an exchange of letters.

Comment: The United States was ready to give Egypt military and economic aid immediately following the Suez settlement in July. In late August, however, Egypt began negotiations for economic aid alone, because the Nasr regime feared public reaction to the signing of the Mutual Defense Assistance agreement necessary to obtain military aid.

Despite the regime's apparent desire for arms, it will probably be unwilling to sign any formal agreement at this time, particularly since the extremist Moslem Brotherhood would use such an arrangement as a pretext for terrorism.

EASTERN EUROPE

6. Comment on deteriorating Hungarian economic situation:

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Hungary is now faced with the prospect of a decline in production, a rise in unemployment above the present level of 200,000, and extreme hardship for the population during the winter.

The third quarter of this year showed virtually no increase in the production of manufactured goods. Even after sharp cutbacks in industrial targets, steel production is nearly 90,000 tons behind schedule, and coal arrears--growing

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at about 50,000 tons a week--now total 450,000 tons. Agricultural output has also failed to meet goals; an important factor has been that the production of agricultural machinery is 50 percent behind plan.

One important Communist Party official has admitted that the economy is producing "less, worse and dearer" today, as contrasted with the official slogan "produce more, better and cheaper." While labor productivity has fallen and retail prices were reduced this year, production costs and wages have increased. The resulting inflationary pressures were kept under control only by drawing on inventories.

Confronted by these problems, the government will continue to increase material incentives for workers and peasants. Announced plans for 1955 call for many factories to be switched over to the exclusive manufacture of agricultural and consumers' goods. However, the government faces a difficult interim period in which supplies of these goods will remain critically short.

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WESTERN EUROPE

7. Comment on the British strike situation:

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The month-old strike of British dockworkers, which now involves eight ports and over half the total dock labor force of 76,000, will threaten essential food supplies by this weekend. Up to \$450,000,000 worth of imports and exports are estimated to be tied up, and some industries may be forced to close down temporarily.

The strike was called in the first place by the small, Communist-led National Stevedores' and Dockers' Union in protest against compulsory overtime. Leaders of the strike persuaded many members of the big, strongly anti-Communist Transport and General Workers' Union to walk out in sympathy.

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The cabinet has twice agreed to call in troops, but each time has reversed itself, partly for political reasons and partly because of fear of additional sympathy strikes. The 27 October report of the special court of inquiry proposes a compromise formula which the government hopes will persuade the strikers to return to work. Should they remain adamant--and they have already rejected appeals from government, Labor Party, and union officials--the government will be forced to use troops.

A voluntary return to work would give the Conservatives a political victory, since the previous Labor government used troops in a similar situation and the opposition has approved such government action at this time. Union leaders and the General Council of the powerful Trades Union Council, whose almost unprecedented appeal to the strikers to end their "useless sacrifices" was ineffective, have already suffered a great loss in prestige.

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